

AN INTRODUCTION TO

The 1031 Exchange

PRESERVE MORE EQUITY. MAINTAIN INVESTMENT MOMENTUM.

A 1031 Exchange is a tax-deferral strategy that allows real estate investors to sell an investment property and reinvest the proceeds into another qualifying real estate investment without immediately recognizing capital gains taxes.

Rather than reducing your available capital through taxes at the time of sale, a 1031 Exchange allows more of your equity to remain invested and working toward your long-term financial goals.

For many investors, this creates opportunities to improve income, diversify holdings, simplify ownership responsibilities, or reposition a portfolio as investment objectives evolve.

The concept is simple:
Keep more of your capital invested,
so more of your capital can continue working for you.



THE POWER OF FLEXIBILITY

Why Investors Exchange

DIFFERENT GOALS. ONE STRATEGY.

Investors pursue 1031 exchanges for many different reasons. Some are seeking passive income, others want greater diversification, and many simply want to preserve more capital for future investment.

While objectives vary, the common thread is flexibility—the ability to reposition real estate holdings without immediately recognizing capital gains taxes.

A 1031 Exchange can help investors adapt to changing circumstances while keeping more of their equity invested and working toward long-term goals.



MORE FREEDOM FROM MANAGEMENT

Move away from day-to-day ownership responsibilities and into investments designed to be more passive.



IMPROVE CURRENT INCOME

Reposition capital into investments that may offer stronger cash flow characteristics and more consistent income potential.



REDUCE CONCENTRATION RISK

Diversify away from a single property, market, tenant, or asset type by spreading risk across multiple investments.



ADAPT TO CHANGING GOALS

Investment objectives often evolve over time. A 1031 Exchange allows your portfolio to evolve with them.



SUPPORT ESTATE PLANNING

Create additional flexibility when coordinating long-term wealth transfer, legacy planning, and multigenerational ownership strategies.



PRESERVE MORE INVESTABLE CAPITAL

Deferring taxes allows more equity to remain invested and participate in future income, growth, and appreciation.



The Hidden Cost of a Taxable Sale

TAXES CAN REDUCE MORE THAN TODAY'S PROCEEDS

When you sell an investment property, taxes can significantly reduce the amount of capital available for reinvestment. While many investors focus on the immediate tax liability, the larger impact is often the growth potential that leaves the portfolio when those dollars are no longer invested.

A 1031 Exchange does not eliminate taxes. However, it may allow you to defer capital gains taxes and keep more capital working toward future growth, income, and appreciation.

\$1,000,000 PROPERTY SALE



POTENTIAL SOURCES OF TAX LIABILITY



FEDERAL CAPITAL GAINS TAX

Applied to gains realized from the sale of appreciated investment property.



DEPRECIATION RECAPTURE

Recaptures depreciation deductions previously claimed during ownership.



NET INVESTMENT INCOME TAX

May apply depending on income level and filing status.



STATE INCOME TAXES

Varies based on the property's location and investor residency.

This example is for illustrative purposes only and does not represent the results of any specific transaction. Actual tax results will vary based on individual circumstances, including property location, holding period, tax basis, income level, and applicable federal and state tax laws. Consult your tax advisor.

Why Keeping More Capital Invested Matters

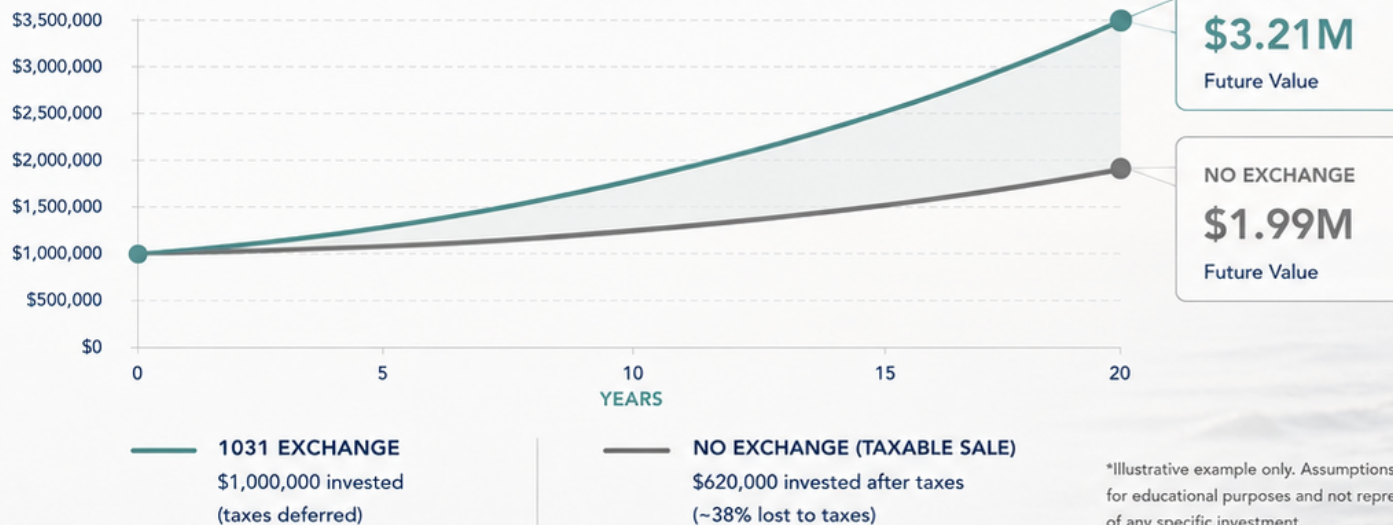
THE POWER OF TAX DEFERRAL OVER TIME

Taxes paid today reduce the amount of capital available to invest tomorrow. A 1031 Exchange allows investors to defer capital gains taxes and keep more equity working on their behalf.

While tax deferral does not eliminate taxes, it can increase the amount of capital participating in future growth, income generation, and appreciation. Over long periods of time, the effect of compounding on a larger investment base can become significant.



POTENTIAL ASSET VALUE OVER TIME



*Illustrative example only. Assumptions shown for educational purposes and not representative of any specific investment.

The 3 Essential Rules of a 1031 Exchange

UNDERSTANDING THE REQUIREMENTS FOR TAX DEFERRAL

While 1031 Exchanges can provide meaningful tax-deferral benefits, successful exchanges must satisfy several important IRS requirements.

Fortunately, the framework is relatively straightforward. Understanding these three core rules can help investors complete an exchange successfully while preserving the tax advantages that make the strategy so valuable.



01



Like-Kind Property

Almost all investment real estate is considered like-kind to other investment real estate, regardless of property type.

02



Equal or Greater Value

To fully defer taxes, investors generally acquire replacement property equal to or greater than the value of the property being sold.

03



Same Taxpayer

The taxpayer selling the relinquished property generally must be the same taxpayer acquiring the replacement property.

Choosing Replacement Property

UNDERSTANDING YOUR IDENTIFICATION OPTIONS

The right identification strategy can make all the difference in a successful exchange. The IRS offers three identification rules to provide flexibility when selecting replacement property—each designed to fit different investment goals and circumstances.

Understanding these options helps you evaluate opportunities with confidence and build an exchange strategy that aligns with your objectives.

1



The Three Property Rule

The most commonly used identification method.



BEST FOR

Investors evaluating a limited number of replacement opportunities.



HOW IT WORKS

Identify up to three potential replacement properties and ultimately acquire one, two, or all three.

2



The 200% Rule

Provides additional flexibility when evaluating multiple opportunities.



BEST FOR

Investors seeking broader diversification.



HOW IT WORKS

Identify any number of properties provided the combined value does not exceed 200% of the value of the property sold.

3



The 95% Rule

Designed for situations involving large identification lists.



BEST FOR

Complex exchanges involving numerous replacement properties.



HOW IT WORKS

Identify any number of properties, provided at least 95% of the total identified value is ultimately acquired.

What Can You Exchange Into?

THE FLEXIBILITY OF LIKE-KIND REAL ESTATE

One of the most common misconceptions about a 1031 Exchange is that investors must replace one property with another that is nearly identical.

In reality, the IRS generally allows investment real estate to be exchanged for other investment real estate, regardless of property type. This flexibility gives investors the opportunity to reposition capital, improve diversification, reduce management responsibilities, or pursue different income objectives without immediately recognizing capital gains taxes.

The key requirement is that both the relinquished property and replacement property are held for **investment or business purposes**.

QUALIFYING PROPERTY TYPES



APARTMENTS



OFFICE



RETAIL



INDUSTRIAL



MEDICAL OFFICE



SELF STORAGE



NNN / TRIPLE NET LEASE



RAW LAND

Like-kind *does not* mean identical.



GENERALLY NOT ELIGIBLE



Primary Residence



Stocks & Bonds



Partnership Interests



REIT Shares



Personal Property

1031 Exchange Time Limits

TWO CRITICAL DEADLINES. ONE SUCCESSFUL EXCHANGE.

A 1031 Exchange offers meaningful tax-deferral benefits, but it is governed by strict IRS timelines that begin the moment your property sale closes. Missing either deadline can jeopardize the exchange and result in immediate recognition of capital gains taxes.

While the process itself can vary from investor to investor, every exchange follows the same timeline. Understanding these milestones early can help you plan effectively and avoid unnecessary pressure as deadlines approach.



The Challenges of a 1031 Exchange

SUCCESS REQUIRES MORE THAN FINDING ANOTHER PROPERTY.

A 1031 Exchange can be one of the most powerful tools available to real estate investors. However, successfully completing an exchange often involves more than simply finding another property to purchase.

Investors must navigate strict deadlines, limited inventory, financing requirements, and the uncertainty that can arise during escrow. Even when an exchange is completed successfully, many investors find themselves concentrated in a single property, market, or tenant.

Understanding these challenges is often the first step toward identifying a replacement strategy that better aligns with your goals, risk tolerance, and desired level of involvement.



1. TIME CONSTRAINTS

45-day identification and 180-day closing deadlines can create pressure when evaluating opportunities.



2. LIMITED INVENTORY

Finding replacement properties that meet income, location, and risk objectives can be difficult within the exchange window.



3. TRANSACTION RISK

Properties can fall out of escrow unexpectedly, requiring investors to pivot quickly.



4. FINANCING CHALLENGES

Lender requirements, appraisals, and loan timelines can complicate an otherwise attractive opportunity.



5. CONCENTRATION RISK

Replacing one property with another may increase exposure to a single asset, tenant, or market.

Your Options After the Sale

ONE EXCHANGE. MANY PATHS.

A 1031 Exchange gives you the flexibility to choose what comes next. Whether your goal is more control, steady income, diversification, or future liquidity, there's a solution designed to help you get there.

WHICH OUTCOME BEST MATCHES YOUR GOALS?



MORE CONTROL



MORE PASSIVE



Direct Ownership

BEST FOR INVESTORS WHO WANT full control and are comfortable managing property directly.



Complete ownership & control



Highest management responsibility



Concentrated property-specific risk



Delaware Statutory Trust (DST)

BEST FOR INVESTORS SEEKING passive ownership, diversification, and professional management.



No day-to-day management



Diversification across markets & tenants



Potential monthly income distributions



Zero DST + Refinance

BEST FOR INVESTORS SEEKING passive ownership with potential access to a portion of their capital through future refinancing.



Tax deferral benefits



Potential future liquidity through refinancing



Long-term hold structure



UPREIT / 721 Exchange

BEST FOR INVESTORS SEEKING diversification today with a pathway toward future liquidity and portfolio flexibility.



Broad diversification



Professional management



Potential future liquidity & estate planning benefits

Active Control or Passive Investment

TWO APPROACHES. DIFFERENT LEVELS OF INVOLVEMENT.

Every investor has different goals, time commitments, and preferences. Understanding the differences between direct ownership and passive ownership can help you choose the path that best fits your lifestyle and investment strategy.

DIRECT OWNERSHIP ACTIVE CONTROL



You're in Control

You make the decisions and manage the property day-to-day.



Hands-On Management

You oversee leasing, vendor relationships, operations, and tenant issues.



Concentrated Risk

Performance is tied to a single property or tenant base.



Time Intensive

Requires significant time, attention, and resources.



Income May Vary

Cash flow can fluctuate with market conditions, tenant performance, and vacancies.

VS.

PASSIVE OWNERSHIP PASSIVE INVESTMENT



You're a Passive Investor

Professionally managed. You benefit from ownership without daily responsibilities.



Professional Management

Experienced teams handle leasing, operations, and ongoing management.



Diversified Risk

Risk is spread across multiple properties, tenants, and markets.



Minimal Time Commitment

No day-to-day management—more time for what matters most.



Potentially More Stable Income

Diversification and professional management may provide more consistent cash flow.



There's no one-size-fits-all approach. The right choice depends on your goals, the time you want to invest, and the level of involvement you prefer.

Building a Legacy Through Real Estate

HOW LONG-TERM TAX DEFERRAL CAN SUPPORT GENERATIONAL WEALTH

For many investors, a 1031 Exchange is more than a tax strategy—it is a long-term wealth preservation strategy.

By continuing to defer taxes through successive exchanges, you can keep more capital invested, acquire larger and more diversified assets, and potentially transfer those assets to future generations.

Under current tax law, inherited property may receive a step-up in basis at death, potentially reducing or eliminating deferred capital gains taxes for your heirs.*



Is a 1031 Exchange Right for You?

UNDERSTANDING WHEN TAX DEFERRAL MAY SUPPORT YOUR GOALS

A 1031 Exchange is often associated with tax deferral, but many investors use the strategy for reasons that extend beyond taxes alone. In addition to preserving capital, exchanges can help investors reposition real estate holdings, simplify ownership responsibilities, improve diversification, and align their portfolios with changing lifestyle and financial goals.

The structure may be worth exploring if several of the objectives below align with your priorities.

Preserve More Capital



INVESTORS CONCERNED ABOUT TAXES

Keep more equity invested rather than paying capital gains taxes at the time of sale.



RECENTLY SOLD PROPERTY OWNERS

Reinvest proceeds into new opportunities while maintaining tax deferral.

Simplify Ownership



TIRED LANDLORDS

Reduce management responsibilities and day-to-day property oversight.



INVESTORS SEEKING PASSIVE INCOME

Generate potential income without active property management.

Plan for the Future



INVESTORS SEEKING DIVERSIFICATION

Spread risk across multiple properties, markets, tenants, and asset types.



INVESTORS PLANNING FOR HEIRS

Build a long-term strategy designed to support legacy and estate planning objectives.

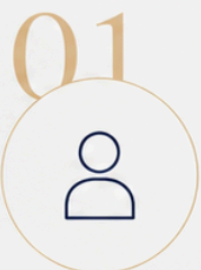
Considering a 1031 Exchange?

A THOUGHTFUL PROCESS.
A MORE INFORMED DECISION.

Every investor's situation is unique. The right exchange strategy depends on your property, tax considerations, income objectives, timeline, and long-term goals.

The process begins with understanding your current position and evaluating the opportunities available to you. From there, potential strategies can be explored, compared, and tailored to your objectives before any decisions are made.

Whether you ultimately pursue a direct property purchase, a Delaware Statutory Trust (DST), a Zero DST structure, or another exchange solution, the objective remains the same: **making an informed decision that aligns with your goals.**



UNDERSTAND YOUR SITUATION

Review the property being sold, estimated equity, debt position, timeline, and your investment objectives.



EXPLORE AVAILABLE OPTIONS

Evaluate potential replacement property structures, ownership models, income opportunities, and diversification strategies.



COORDINATE WITH YOUR ADVISORS

Review tax considerations and discuss potential strategies with your CPA, attorney, and other trusted professionals.



SELECT A STRATEGY

Determine which solution best aligns with your goals, risk tolerance, income needs, and desired level of involvement.



EXECUTE THE EXCHANGE

Work alongside a Qualified Intermediary and closing professionals to complete the exchange within IRS guidelines.



GENERAL DISCLOSURE:

All investing involves risk of loss of some or all principal invested. Past performance is not indicative of future performance. There can be no guarantee that any investment or strategy will achieve its stated objectives. Speak to your tax and/or financial professional prior to investing. Securities and advisory services through Emerson Equity LLC, member FINRA and SIPC and a registered investment adviser. Emerson is not affiliated with any other entity identified herein.



REAL ESTATE / 1031 RISK DISCLOSURE:

- **There is no guarantee** — that any strategy will be successful or achieve investment objectives.
- **Potential for property value loss** — All real estate investments have the potential to lose value during the life of the investments.
- **Change of tax status** — The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities.
- **Potential for foreclosure** — All financed real estate investments have potential for foreclosure.
- **Illiquidity** — These assets are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.
- **Reduction or Elimination of Monthly Cash Flow Distributions** — Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions.
- **Impact of fees/expenses** — Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits.
- **Stated tax benefits** — Any stated tax benefits are not guaranteed and are subject to changes in the tax code. Speak to your tax professional prior to investing.